SHOULD THERE BE BANK SERVICES FEES/CHARGES?

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ABSTRACT

In responding to the interest rate deregulations in Hong Kong, big banks like Standard Chartered Bank, HSBC and Heng Seng Bank announced recently their new service charges policies. This was not surprising as it would be a trend for banks to introduce new fees. Increasing costs of competition and declining margins due to changes of the external environments are two main drives. Thus, big banks took the initiative to consider charging services fees that are less dependent on the volatile interest rates and other market forces. Such differentiation charging and interest rate system aroused criticisms on social responsibility of banks and stratification of depositors. Among the three pricing structures: one-size-fits-all approach (fixed fees); pay-as-you-go approach (variable fees); and tiered interest scheme, variable fees sounds more fair to the public. However, banks should choose the best suit pricing structure.

In the future development of banking service, banking fees are unavoidable. This trend would divide banks into: Big Banks, Medium Banks and Small Banks, which compete separately in their own market segments. Moreover, banks would also diversify their service types from deposits and loans services to more value added services and products to meet customers' needs. They would focus more on the profitability of a customer instead of that of the products or services. Banking industry is stepping into an innovative revolution process.

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CHAPTER I

INTRODUCTION

"The banking industry in Hong Kong is experiencing fundamental changes for a number of reasons, of which one is interest rate deregulation. The removal of the maximum rate caps on deposits will increase competition and threaten to tighten margins further. Banks are obliged to recoup the cost of providing services to customers, some of which were previously subsidized..."

~ Raymond Or, General Manager of HSBC

I.I. Hong Kong and Shanghai Banking Corporation's Announcement

On 3 April 2001 afternoon, Hong Kong and Shanghai Banking Corporation (HSBC) announced the most notorious services charges policy in Hong Kong. The biggest bank now retains around four million Hong Kong account holders[1], and would impose a $40 monthly fee for passbook account holders who have an average monthly balance of less than $5,000, starting from July 2001. Fees increase for "PowerVantage" account customers would be even more robust, from an annual $250 to a monthly $60 for accounts with an average monthly balance below $10,000.

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[1] "HSBC Raises Charges To Target Small Depositors"; Antoine So and Alex Lo; South China Morning Post; Front; 4 April 2001

Exemptions would be granted to people aged 65 and over and disabled benefit claimants. Other exemptions include customers with special accounts and those who have loans, mortgages, overdrafts, unit trusts, monthly investment plans, life insurance polices and time deposit with HSBC.

According to the general manager of HSBC, Raymond Or Ching-fai, charging customers for accounts was a global trend. Such policy was largely triggered by interest rates deregulation which would create fierce competition among banks for deposits by offering depositors the best rates. The policy is also aimed to persuade customers to use phone and Internet banking and automated teller machines (ATMs) rather than over-the-counter (OTC) services. HSBC would cancel the annual $50 ATM fee and modify the ATM machines to become user-friendlier for the elderly. A new "Easy Savings" account was also proposed, with which customers with small account balances could avoid the $40 monthly fee and instead pay $20 each time they made a withdrawal or transfer at a bank counter.

Apart from imposing services charges, a four-tier interest-rate structure would start to function in May 2001 to further discriminate those small depositors, who would receive less or zero interest if their balances were lower than certain levels. At one extreme, savings accounts with more than $10,000 will receive short-term deposit rate 3.25 percent while at the other end, the rate would be cut for smaller accounts and no interest would be paid on accounts under $1,000.

From 1 July 2001, the four-tiered interest rate structure would be based on a floating rate set by HSBC. Detailed information of the new services charges policy and the four-tiered interest rate structure is listed in *Appendix 1*.

This new policy would affect 15 percent or around 650,000 of HSBC's existing customers, whose average balances fell below the minimum balance requirement $5,000. Depositors queuing up at HSBC's 220 branches to close or consolidate accounts and/or to further enquiry were expected. Even though criticism was excited from charitable organizations, political parties, the press and the general public, Mr Or defended that HSBC was not discriminating against any depositors and did not attempt to eliminate small depositors, what they were doing was to encourage people to save more. In fact, back to 1999, HSBC and its sister company Hang Seng Bank had already started to charge accounts with balance less than $3,000 one percent interests.

I.II. Banking Industry Revolution

We should not be surprised of HSBC's widely-predicted move, it is not the first, nor would it be the last bank to introduce new fees. Earlier in mid-January 2001, Standard Chartered Bank had also announced its new services charges policy. By 11 April 2001, Hang Seng also made its new plan. According to a survey conducted by the Consumer Council in January 2001 on 19 banks in Hong Kong, it was found that a fresh round of increased and new fees for a wide range of services would be realized. In the survey, there was a comparison for fees of services commonly used by customers between December 1999 and December 2000, a summary of the results are shown as follows:[2]

1. The great majority (15 out of 19) of banks have increased or introduced new charges or altered the fee structures.

2. Remittance services were mostly affected.

   On remittance-related services, there were altogether fifteen increases ranging from 14.3 percent to 100 percent on transactions that include: fund transfer, telegraphic transfer, demand draft, foreign currency cheque collection and cash payment against remittance receipt. There were also seven new charges on remittance services originally available free to consumers.

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[2] Consumers' Choices; Consumer Council

3. Inactive and/or low balance accounts were again the targets of fee increases.

   Seven banks were found to pay lower interest rate (e.g. reduced by two to three percent), or no interest at all to low balance accounts. On inactive low balance accounts, the survey found two banks raising the fees by 33 percent and 100 percent respectively; and one bank imposing a new fee for inactive period that exceeds three years.

4. At least 80 new charges were identified.

   The survey uncovered a total of 80 charges across a broad spectrum of banking services that were imposed either on newly launched products or services or previously free-of-charge services.

5. There were also 34 changes in the fee structures of various services resulting in increases in most cases.

   An example of such changes involved charges levied on consolidated accounts.

All these new fees policies are concurrently spelling an end to "free" banking for Hong Kong people, and the end of a system where major depositors subsidize smaller depositors.

I.III. Major Issues

There are, however, several problems arise. Even though banks are endlessly announcing their own new plans, should banks really impose those services fees? What would be the reasons and motivations behind? What have the major players done and how did those medium and small banks react? It seems that medium and small banks are not following what big banks have done, why would there be such differences?

If services fees are something that are unavoidable and have to be charged, how should those fees be calculated? Banks are the core industry of the city and banking services have been involved in the everyday life of the citizens, any attempts of the banks would draw lots of attention. So, banks have to employ a fees strategy that is fair enough.

In addition, how would these policies affect the future development of the banking industry? What would be the implications? In the following sections, discussion would be proposed for the mentioned issues.

I.IV. Services Fees

Before move on to the arguments, we have to understand the service fees we are going to discuss. Banks' services fees are actually the payments for the services of transferring of money held in a saving account, transferring of money and assets held in a custodial account, and transferring of money in accord with the terms of a credit agreement. These typically include fees derived from credit card operations, mortgage applications, bounced checks, investment banking, and savings and checking accounts.

In this discussion, we would use the terms "services charges" or "services fees" for the saving or current accounts related transactions services fees, which are the fees that have been increased significantly by banks recently. Other fees such as incomes from other noncredit services-including insurance, securities underwriting, brokerage, advisory services, equity investments, and portfolio management would be labeled as "non-interest income" in the following sections.

CHAPTER II

BANK FEES AND FUTURE IMPLICATIONS

"Bankers are likely to think small depositors as chicken ribs, which are hardly worth eating but not bad enough to throw away..."

~ Mingpao; Editorial; E07; 17 January 2001

II.I. Should Banks Impose Services Fees/Charges?

There is no one universal answer to the question. With different sizes and different customers bases, different pricing strategies should be employed. Basically, two main different classes of banks could be identified, one is the "Big Banks", and the other is the "Medium and Small Banks". Upon such classification, we would be more likely to capture an understanding of why a particular bank would employ a particular services fees strategies.

In order to facilitate the subsequent discussion, we would also go through some of the fees policies that the banks adopted or announced recently.

II.I.I. Analysis of Big Banks

Apart from HSBC's new fees policy that we have already gone through in the Introduction Chapter, the current and/or announced services fees plans of some other Big Banks including Standard Chartered Bank, Hang Seng Bank and Bank of China Group would be briefly introduced, up to the date 6 April 2001. A comparison of Big Banks' service fees could be found in *Appendix 2*.

A. Standard Chartered Bank

Standard Chartered Bank, the second largest bank in the town after HSBC, was the "initiator" of this round of increasing services charges. Customers of Standard Chartered have to pay a monthly fee of $100 if their account balances fall below $10,000 on any single day in a month. The increased fees have been in effect since 16 January 2001 for new customers and 1 April 2001 for existing customers in its 81 branches. Customers who do other business with the bank - mortgages loans, insurance, unit trusts, or securities trading accounts - would be exempt. Social security assistance customers and elderly people on welfare would also be exempted from the new charges.

There is also an annual fee of $120 for ATM and phone banking services. Those who withdraw money from outside its JETCO network are charged $25 per transaction. Since 1998, the bank had already charged a $25 monthly fee for any account balances fell below $5,000.

B. Hang Seng Bank

On 11 April 2001, Hang Seng Bank, sister company of HSBC, announced its new fees policy which was in many ways similar to that of HSBC. A major difference was that fees would be levied on new accounts only. Hang Seng also charges a $40 monthly fee on savings accounts with average balances of $5,000 or less.

Exemption would be granted to account-holders aged under 18 or above 65, disability allowance recipients, tertiary students and customers using the bank's other services, such as mortgages and investment funds. The charges would take effect from July when interest rates are due to be deregulated.

Hang Seng would also follow HSBC's tiered interest rate structure by reducing interests on smaller accounts, and paying no interest on balances less than $1,000. Like HSBC, its new tiered-rate structure would be introduced in two stages starting from May. Hang Seng also offers a new "ATM Saving" account with no minimum balance but a $20 fee for each transaction conducted OTC.

C. Bank of China Group

Until now, Bank of China Group (BOC), which consists of 12 affiliates and 372 branches in Hong Kong, has not yet announced any comprehensive new services fees plan. But it does levy charges on inactive and low-balance account. It charges a half-year fee of $50 on two-year-inactive account with balance lower than $1,000 and a half-year fee of $70 on three-year-inactive account.

BOC also penalized small depositors through interest rate reduction. Earlier in March 2001, it lowered the saving deposit rate by one percent to 2.75 percent and raised its minimum time deposit from $1,000 to $10,000. Also, it would reduce interest rates for accounts below $3,000 from 4.25 percent to one percent.

After looking at Big Banks' fees policies, we would explore some possible motivations pushing the Big Banks for employing such strategies. Drives of those charges included falling yields earned on conventional loans as competition hot up and industry growth stagnate, increasing competition and tightening margins due to interest rate deregulation, rising costs of deposits owing to deposit insurance scheme, and use of ATM, phone banking and internet banking as alternatives to branches banking.

II.I.I.I. Stagnant Growth in Banking Industry

The future of the banking industry is not optimistic. Some analysts suggested that the future payoff of the banking industry in Hong Kong would be difficult, expecting only a single digit percentage increase in profits for the coming years. This is mainly due to the stagnant in banks' key businesses including loans, credit cards and securities trading.

Loans Market

After the Asia Financial Crisis, the economic growth in Hong Kong as well as in most Asian countries slowed down, leading to sluggish in the lending markets. Slow down of the US and Japan economies also puts negative effects on the assets quality and lending opportunities. There is continued sluggishness in private sector investment and recourse by the corporate sector to other forms of financing such as the equity and bond markets. Worsening lending situation is not only true in the business / corporate side, but is also the case for private / individual loans. According to the projection of economists, the future growth of banking industry in Hong Kong would be limited since the income levels of the general public remain constant or even worse, decrease.

Sluggish loan growth seems to have persisted and domestic loan demand has not yet shown a sustained recovery. In 2000, banks are flush with liquidity. A recent study by Goldman Sachs concluded that the surplus deposits in the banking system had tripled since 1997 to reach HK$1.5 trillion. According to the study, this represents 124 percent of GDP, the highest percentage in the world.[3] This is putting pressure on lending margins. Banks thus have to compete intensely for personal loans such as personal overdraft, car loans, tax loans, and mortgage loans. In particular, price war was sparked off in the mortgage market.

Residential mortgage loans are important to Hong Kong's banking industry, which typically accounts for around 40 percent of the assets of a bank in Hong Kong. However, due to a lack of revival in the residential property market, competition for residential mortgage loans became even more extreme. Pricing has

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[3] "The Way Forward for Banking Sector Reform"; Information Services Department, Hong Kong SAR Government; Press Release; 9 April 2001

now reached more than 2.25 percent below prime rate, further squeezing banks' margins. According to Raymond Or, general manager of HSBC, the mortgage income was tightening and the bank had to seek other income sources.[4] As observed in the last two-year, the mortgage price war has carved the lending margins to the bone.

Banks also have to compete in other loan markets. For instance, there is the tax loan competition. During tax seasons, HSBC offered a minimum tax loan amount of 200 percent of a customer's bill or six times the monthly salary. For loan amounts above HK$300,000, general interest rate was as low as a flat of 0.3 percent a month. The lowest interest rate was a flat 0.25 percent per month, or 9.69 percent annualized, on loans HK$300,000 or above to preferred customers. In order to be competitive, profit margin for nearly all types of loan services is decreasing.

Credit Card Market

Credit card fees income had once been one of the banks' fastest-growing sources of income. However, the growing number of credit card offers has already saturated the market. According to a survey in 1999, most Hong Kong people between the age 18 and 45 had at least one credit card, some even had more than four. According to an Asia-wide survey, the usage of credit cards in Hong Kong was wide-spread. Compared to a diffusion rate of 82 percent in US, it was already 72 percent in Hong Kong in 2000[5]. Banks are increasingly difficult to get new credit cards

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[4] "HSBC Customers Face $5 Fee"; Karen Chan; Hong Kong iMail; 7 March 2001

[5] "亞洲信用卡使用普及"; 大公報; 2001 年 2 月 14 日

customers and are eager to boost the existing customers' transactions amounts and frequencies.

In order to maintain the credit card revenues stream, banks have to lower the interest rate on credit cards loans and/or offer gifts or cash rebates to attract customers. Since customers are rational and would shop around for the best credit card offer, they are no longer loyal to a particular bank and would switch constantly, therefore driving up the costs of competition among banks and lowering profit margin from credit cards services.

Securities Trading Market

Another traditional income for banks would be the commission and handling fees for delivering securities handling services to both individual consumer and corporate and institutional customers such as pension funds, mutual funds, and endowments. These services include safekeeping, administering, and reporting on financial and real assets held in a trust department account and transferring of ownership and settling trades of such assets.

However, this revenue stream is rather stable because the number of individuals engaged in securities investments is somewhat constant. And brokerage would only make sense when the banks are serving high-income people. The room for expanding this income source is limited since banks not only have to compete with other banks but also with other financial institutions like investment banks, mutual funds and other assets managers for such limited number of investors.

Keen Competition

Under these circumstances, competition in the industry would no longer be a win-win situation, instead, banks have to capture customers from other banks. That is, competition becomes more intense and direct. Facing with such high level of competition, the advertising and promotion costs of the banks would be driven up. This is especially true for the Big Banks, more have to be spent on promotions and advertising among their more extensive branches networks.

Like other commercial institutions, banks own a duty to its shareholders. Even for a "community" bank, it still has to run on a commercial basis. The escalated promotion costs urged the banks to find way out to sustain the profits growth and continue a profitable business. Even though Big Banks always showed a very large bottom line, they have to demonstrate an annual profits increase but not just a strong profit to their shareholders. Hence, they have to reduce operating costs or increase revenues sources, or both.

Some banks have already combined and centralized processing in low-cost locations and simplified the organization structure in order to save costs. For example, HSBC had decided to cut back on branches and moved back-office jobs to Guangzhou; and Standard Chartered has established similar back-office centers in Kuala Lumpur and Chennai in India. However, there are still many fixed costs that a bank must incur in Hong Kong, such as the costs of ongoing technological advancements, installing and maintaining machines, administration, advertising and promotions, and other fixed and variable overhead costs. Larger the size of a bank, greater would be these expenses.

Therefore, banks require additional stream of services fees incomes to cover the costs apart from those "traditional" core incomes from loans markets, credit card offerings and securities trading accounts, which are limited in growth as mentioned.

II.I.I.II. Interest Rate Deregulation

In 3 July 2000, Hong Kong Association of Banks' (HKAB) first lifted the interest rate ceilings on time deposits with a maturity of less than seven days. And in July 2001, interest rates on savings and current account deposits would be relaxed, along with the prohibition on offering additional benefits or gifts to depositors. The aim of this deregulation is to promote market liberalization and enhance competition in the banking sector as part of the Banking Sector Reform Programme undertaken by the HKMA since 1999. Once this final phase of deregulation is implemented, interest rates on all types of deposits would be determined by competitive market forces. At present, the HKAB meets every Friday to set the interest rate for savings accounts at local banks.

Reducing Interest Rate Spreads

Predictably, banks would offer higher interest rates in order to attract customers in the more competitive environment. In the past, services fees are not a concern of the banks when the interest spreads were sufficient to cover normal operating costs and banks could still provide "free" services to depositors. With deregulation, banks aim to cut costs through measures such as charging OTC transaction fees and imposing minimum deposit requirements. This simply comes from the basic business norms that customers should pay a reasonable fee for services rendered.[6]

When the old spreads between lending and borrowing rates could not be maintained, part of the banks' costs for certain services would be passed on to the customers. According to an analyst with a regional brokerage house, deregulation would reduce banks' net interest margin by an estimated average 15 basis points.[7] In fact, the interest rate spread was maintained at around 4.75 percent between January and August 2000 and diminished to around 2.75 percent after September 2000. User-pays principle must be adopted to ensure that the banks' bottom line would not be hurt.

Compared to Medium and Small Banks, the effect on Big Banks would be more significant. Bigger banks, particularly HSBC and Hang Seng, would be more likely to be hurt in this competition since they are more heavily dependent on current accounts for their funding. Up to 42 percent of Hang Seng's deposits are current accounts or savings accounts compared to less than 20 percent for smaller banks.[8] Since regulated deposits account for a larger portion of Big Banks' deposit base than

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[6] "Are Service Charges A Rip-Off?"; Anonymous; Canadian Banker; Toronto; Volume 105; Issue 5; September/October 1998; Page 46

[7] "HSBC Charges To Come In Periodic Installments"; Karen Chan; Hong Kong iMail; B03; 28 March 2001

[8] "Chartered First To Levy New Charges"; Louis Beckerling; HongKong iMail; 27 March 2001

those of the smaller banks, they had to impose higher fees and charges to make up the decreasing profit margins and at the same time to retain high-value customers. Customers with lower and more volatile balances would be pushed to use those less costly means such as Internet banking. Big Banks were trying to get rid of less profitable customers.

Rising Interest Rate Risk

Again, due to the existence of a larger portion of customer deposits, Big Banks have to face a greater interest rate risk. All banks have to bear the interest rates risk in earning the spreads. A decade ago, such risk was manageable and acceptable since the interest rate in Hong Kong was rather stable. However, lessons learned from the Asia Financial Crisis waked banks to manage such risk more carefully by counting on augmented non-interest income as well as on reduced non-interest expenses to widen this spread.

Accordingly, Big Banks took the initiative to charge services fees which are less dependent on the volatile interest rates and other market forces. Fee incomes are unlikely to be affected by economic factors and less vulnerable to market cycles; therefore act as a revenue buffer for the Big Banks. To lead banks in Hong Kong to become less reliant on interest income for their revenues and more in line with the global trend, there is still room for services fees to expand. At present, net interest income accounts for between 70 and 75 percent of bank revenues in Hong Kong, compared to 40 and 45 percent elsewhere in the world[9].

Restructuring Customer Base

Big Banks are usually associated with a longer operating history, and thus a group of inactive depositors is accumulated. These inactive depositors are not welcomed by banks since they have contributed minimal to the banks' profits. New fees policies which include penalizing inactive and/or small depositors would allow Big Banks to restructure their existing customer bases and expect that only those inactive depositors and those owned more than one saving accounts would be lost. Therefore, possibilities of losing customers would not deter Big Banks from increasing or imposing fees.

II.I.I.III. Deposit Insurance Scheme

In July 2000, the Hong Kong Monetary Authority (HKMA) conducted an independent consultancy study on enhancing deposit protection in Hong Kong. The conclusion of the study was that the best protection for small depositors would be achieved with an insurance-based system. Therefore on 24 October 2000, HKMA issued a consultancy paper on implementing a mandatory deposit insurance scheme.

HKMA agreed that the primary objective of any deposit protection scheme should be to provide a measure of protection to small depositors and to contribute to the stability of the financial system. The proposed scheme would require banks or depositors to pay a levy to a deposit insurance scheme which would be managed by a third party. If a bank failed, the small depositors would be able to get compensation of up to HK$100,000 from the scheme. In the international context, there is the growing trend in favor of explicit forms of deposit protection. To be in line with practices in most other countries, the deposit insurance scheme would be publicly administered and privately funded.

Such deposit insurance scheme would definitely build costs into banks' business structure, such as raising administration and management costs, those increased costs would finally find their ways to the customers. Again, since Big Banks possess a larger customer base, the increase in additional costs would be more significant for them. Therefore, Big Banks generally did not welcome the scheme because of their strong balance sheet. HSBC, Hang Seng Bank and Standard Chartered had come out strongly in opposition to the mandatory deposit insurance scheme. On the other hand, smaller banks like Liu Chong Hing Bank and Wing Hang Bank supported the scheme because they believed that it would bolster depositor confidence in Small Banks. The scheme would thus trigger competition by encouraging depositors to take their savings to banks that offered higher interest rates but had higher risks attached to them, prompting many banks to take up more risk in order to attract more deposits.

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[9] "Chartered First To Levy New Charges"; Louis Beckerling; Hong Kong iMail; Business-HongKong; 27 March 2001

As the deposit insurance scheme would eliminate the automatic safe-haven status of bigger banks, Big Banks would find ways to reduce the costs of holding the deposits. They would try to reduce the number of small depositors or increase the value of the small depositors to the banks by imposing services charges. The raising services fees would either drive away small depositors or would cover the additional costs due to the deposit insurance scheme.

II.I.I.IV. Technology Advancements

In recent years, banks have been spending heavily on technological advancements including online/Internet banking, advanced-ATM, and sales-automated techniques. In 1996, the Chase Manhattan Bank (HK) firstly offered electronic banking services using personal computers (PC) as the media. After installing the software provided by the Bank, customers could directly access their own banking accounts to carry out several different kinds of transaction through their PC. In late 1998, Chase Manhattan furthered its role in electronic banking services by providing Internet Banking. After that, banks like Wing Lung Bank, Hang Sang Bank and HSBC followed.

With such a heavy investment, Big Banks are charging OTC services fees with an aim to persuade customers to use phone and Internet banking and ATMs. New charges would encourage more usage of the automated channels for transactions so that staff at the branches could sell more non-interest-based products such as unit trusts and life insurance. Less OTC transactions would allow branch costs to be streamlined. For example, the "Easy Savings" account proposed by HSBC is aimed to push customers to use ATM machines if they do not want to pay any low-balance account surcharges.

The reason behind the banks' focus in developing these self-servicing media is that they are more cost-effective when compared to the OTC transaction at a branch. Take the leading Big Bank HSBC as an example. According to banking sources, each OTC transaction at a retail branch costs HSBC $8, versus just under $1 on the Internet.[10] HSBC's public affairs chief David Hall had once said that about 30 percent of people who queued in HSBC's 220 branches did not have an account with the bank. Some of them are just paying utilities bills there, therefore pushing them to pay their bills through ATMs or online would benefit HSBC and other customers by reducing pressure on branches.

Also, a withdrawal of $200 over the counter could cost a bank about as much as one of $10,000. However, a big depositor's contribution towards a bank's earnings is certainly larger than a small depositor's. For instance, the operational costs for a $1 million deposit and a $10,000 deposit are basically the same. This being the case, banks would impose all sorts of fees towards small depositors. Bigger depositors, or customers that use several banking products are likely to pay less or nothing to operate their accounts, or to receive an increasing scale of interests depending on the size of their deposits. Smaller depositors, on the other hand, would end up paying more to keep their accounts with the banks, or earn lower rates on their deposits.

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[10] "HSBC Customers Face $5 Fee"; Karen Chan; Hong Kong iMail; 7 March 2001

In addition, it is very well known in the banking circles of the "80/20 rule" - whereby 20 percent of existing customers provide 80 percent of the banks' profits.[11] That further explains why banks have to make less "valuable" customers to pay for costly services. As a result, banks are trying to migrate as many transactions to those more cost-effective automated facilities as possible.

However, depositors might argue that banks should offer higher interest rates, cash rebates or gifts for customers using the self-serving facilities rather than penalizing them for using traditional OTC services. Banks should "pull" customers to use banks' favored means of servicing rather than "push" them to do so. It is argued that using price-related incentives seems more reasonable to encourage customers to reduce their branch usage willingly when they could see a financial benefit for doing so. But from the banks' standpoint, this "pull" approach would greatly drive up their costs which must be in some way pass back to the customers finally. Services fees would still be imposed in other means.

As we could see, with a larger depositor base, Big Banks' exposures to the savings-account-related modification would be greater. The escalating costs and tightening profit margin due to keen competition, interest rate deregulation and deposits insurance scheme all prompted Big Banks to charge those less-valuable customers, and drive depositors to use the cheaper automated channels.

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[11] "Well-Balanced Package"; South China Morning Post; Editorial; 4 April 2001

II.I.II. Analysis of Medium and Small Banks

After exploring Big Banks' new fees policies and the related motivations, we would now consider those of the Medium and Small Banks. Without substantially increasing their own fees, on the other hand, Medium and Small Banks decided to offer attractive charge-free packages to lure customers. Depositors could still choose among these other banks. A comparison of Medium and Small Banks' service fees could be found in *Appendix 3*.

Until 12 April 2001, ten Medium and Small Banks still have no plan to increase services fees or charge small depositors. They are Dah Sing Bank, Shanghai Commercial Bank, Citi Ka Wah Bank, Wing Lung Bank, Bank of Communications, Asia Commercial Bank, The Hong Kong Chinese Bank, Chekiang First Bank, International Bank of Asia and Liu Chong Hing Bank as shown in the following table:

TEN BANKS THAT DO NOT IMPOSE FEES ON LOW-BALANCE ACCOUNTS[12]

Bank	Future Services Fees Plan
Dah Sing Bank (大新銀行)	Does not plan to charge or reduce interest rates on low balance account
Shanghai Commercial Bank (上海商業銀行)	Would announce the services fees plan one to two months later
Citi Ka Wah Bank (中信嘉華銀行)	Does not plan to charge or reduce interest rates on low balance account this year
Wing Lung Bank (永隆銀行)	Undecided
Bank of Communications (交通銀行)	Does not plan to charge or reduce interest rates on low balance account in the short-run
Asia Commercial Bank (亞洲商業銀行)	Does not plan to charge low balance account or OTC services before year end, but would modify the tiered-interest rates depending on the market situation
Hong Kong Chinese Bank (香港華人銀行)	Undecided
Chekiang First Bank (浙江第一銀行)	Does not plan to charge or reduce interest rates on low balance account

[12] "10 銀行暫成小存戶避風港"; 東方日報; 新聞版; 2001 年 4 月 13 日

International Bank of Asia (港基銀行)	Would not change current services fees plan before 30 June 2001
Liu Chong Hing Bank (廖創興銀行)	Undecided

Among those Medium and Small Banks, we would introduce the responses of Bank of East Asia, Dah Sing Bank, Citic Ka Wah Bank, Liu Chong Hing Bank and International Bank of Asia towards those Big Banks' fees announcements.

A. Bank of East Asia

Bank of East Asia (BEA) currently owns 133 branches, including United Chinese Bank and First Pacific Bank. According to the chairman and chief executive of BEA, David Li Kwok-po, said on 4 April 2001 that BEA would not follow HSBC in imposing additional charges on small depositors. Instead, BEA would instead provide a "very favorable" interest rate to all its customers after 1 July 2001, hoping to resist raising any services fees as long as possible and increase the number of customers as much as possible. The bank is also considering some new measures like extending opening hours and upgrading services quality to attract new depositors.

B. Dah Sing Bank

Immediately after Standard Chartered's fees announcements, Dah Sing Bank attempted to attract small account holders by placing a full-page advertisement in a local newspaper on 15 January 2001 stating that it would not impose any fee or charges on minimum deposits. It even announced on 19 March 2001 that a "free banking pass" that gave customers 20-time free banking services for opening savings, current or Internet accounts, such as cashier orders, travelers' cheques and telegraphic transfers. To the extreme, customers would be able to save up to $3,200.

C. Citic Ka Wah Bank

Like Dah Sing, Citic Ka Wah Bank is also keen on attracting new customers. On 17 January 2001, Citic Ka Wah announced a HK$100 rebate for new customers who signed up for phone and online banking services when they opened a savings or current account, in a bid to boost online banking activity. In terms of fees, the bank levies a charge of HK$70 every six months on an "inactive account" with account balance of less than HK$1,000 on which no transaction is made for a year. But it has pledged not to impose charges on small depositors this year, expecting to enlarge the bank's retail customer base by about 10 percent.

D. Liu Chong Hing Bank

Liu Chong Hing Bank also promised not to introduce any new services fees. Like Dah Sing, it took out newspaper advertisements to communicate such message to compete for customers driven out from the Big Banks. Its $50 annual ATM fee is waived too.

E. International Bank of Asia

Though less aggressive, International Bank of Asia (IBA) also aimed to grow and expand its customer base. Said on 2 April 2001, IBA would offer some free banking services until the end of June for both existing and new customers, including free phone and Internet banking services, and would waive the first year annual fee for ATM services. Senior citizens aged 65 and over are exempted from minimum deposit balance and account maintenance fee requirements.

As we could see, Medium and Small Banks are doing something that were quite different from those of the Big Banks. Typically, their customers tend to pay far less for the banking services than those of the bigger banks. For example, minimum balances needed to avoid fees on deposits are much higher at Big Banks. However, why should there be the differences? Now we would look at the rationales behind.

While bigger banks tried to earn the increased cost of competition by raising fees and charges and in so doing pushing away small depositors, Medium and Small Banks would view this as a chance to compete with large banks for deposits. Unlike Big Banks, they tend to welcome an influx of minor depositors and would even pay them higher interest than they received previously. This might lead to a keen bidding war for deposits among those Medium and Small Banks.

II.I.II.I Excess Capacity

Medium and Small Banks in general do not have an extensive branch networks and/or ATM network that are comparable to those of the Big Banks. The numbers of branches of these Medium and Small Banks are usually around thirty to seventy compared to over a hundred for the Big Banks. Because of their smaller size, Medium and Small Banks usually have fewer customers while many Big Banks enjoy a reputation of more secure when depositors have to save their money. Customers would also find it more convenient to keep an ATM-linked account in a Big Bank with an extensive ATM network. As a result, it is common for Medium and Small Banks to face the problem of "excess capacity", that is, the existing customers have not yet fully utilized the capacity of the banks' branches. While for the Big Banks, customers usually have to queue and wait for around 15 minutes for carrying out OTC transactions; it is rather common for tellers in Medium and Small Banks' branches to wait for customers.

With such an "excess capacity", what should these Medium and Small Banks do? Should they cut their numbers of branches so as to reduce capacity? The answer is no. It is because generally, the smaller the number of branches a bank has, the smaller the size of the bank is perceived by the customers. With fewer branches, depositors would find it inconvenient to use the bank's services and therefore are not willing to open accounts with the bank. As a result, the bank would be in an inferior position to compete with other banks, not only to say the Big Banks, but also other Medium and Small Banks. Therefore, cutting branches to reduce capacity is not a feasible option for these banks.

Instead, Medium and Small Banks should expand their customer base in order to utilize the "excess capacity". This could be achieved by providing more incentives such as rebates and gifts to attract new customers. Some Medium and Small Banks might have been doing these for a long time before the announcements of interest rates deregulation, however, Big Banks have a competitive advantage in terms of reputation and convenience during that time. Now, as deregulation approaches, Big Banks start to charge customers services fees, creating a good opportunities for Medium and Small Banks to absorb customers that are driven away from the Big Banks' services charges. This explains why Medium and Small Banks do not impose any services charges right now; in fact, they should not do so before their capacities are exceeded.

We should note that customers leaving those Big Banks due to services fees are not necessarily inferior customers. For example, depositors leaving Standard Chartered might have an average balance above $10,000 but just did not want to pay the monthly $100 fee in case the balance unexpectedly dropped below $10,000. Therefore, many Medium and Small Banks, such as Citic Ka Wah Bank, Dah Sing Bank, and Bank of East Asia, have been trying to attract this group of customers by charging no services fees, paying a better interest rate or even providing cash rebate. The results were rewarding. According to Dah Sing Bank, 10,000 new customers had been captured in the two months since its mid-January announcement of no fees for small depositors. The bank's total number of deposit customers is now between 300,000-320,000.[13]

Apart from attracting new customers by carrying out "external" promotions, Medium and Small Banks could also exploit their existing customers. They could offer current customers cash rebate or gifts for introducing new customers to the banks. If the program is run effectively, customers base might be doubled or even tripled.

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[13] "Dah Sing Bank Snares Clients With Fees Freeze"; Karl Wilson; Hong Kong iMail; B04; 20 March 2001

Since Medium and Small Banks still have excess capacity, a larger customer base is in any sense beneficial to them because they have enough staff to handle new customers and to cross-sell mature customers other products or services, such as credit cards, mortgages, unit trusts, and travel and home insurances. In order to accomplish such target successfully, Medium and Small Banks have to reform their branches, which should no longer be simply providing OTC transactions, but should also provide personal financial services advices.

II.I.II.II. "Human" Banking

Big Banks are eager to push their customers to use the phone banking, Internet banking and ATM to reduce the pressures to the branches and reduce costs. This is, however, not the case for Medium and Small Banks. First, as mentioned, Medium and Small Banks' excess capacity allow them to handle increasing number of customers and the related OTC transactions personally.

Second, the customers of Medium and Small Banks are usually smaller depositors who might be older in age, less educated or in any other sense less capable and willing to adopt those self-servicing facilities such as ATM, phone and Internet banking. If this is the case, there is less motivation for Medium and Small Banks to push their customers to employ all those means by imposing charges on OTC services.

Third, for every customer visiting the branches of Medium and Small Banks would mean an additional opportunity for them to cross-sell products and services to the customer through direct personal selling. Medium and Small Banks could also capture customers who enjoy dealing with individuals at the branches.

II.I.II.III. Deposit Insurance Scheme

Although deposit insurance scheme would also drive up the costs of holding an account of Medium and Small Banks, it could still be beneficial to them. When Medium and Small Banks are worrying that they have "excess capacities" and not enough customers, the concern of increasing in costs of holding an account would be minimal for them compared to that for the Big Banks. Medium and Small Banks should in contrast seize the opportunities given by the scheme.

Many depositors now still have the impression that smaller banks are less reliable and secure if they have to deposit money in them. With the deposit insurance scheme, small depositors' saving could be protected and their confidence in Medium and Small Banks would thus be boosted. Customers thus would be encouraged to take their deposits to Medium and Small Banks that offer them higher interest rates though associating with a higher risk.

Even though at this moment, Medium and Small Banks should not charge customers services fees or reduce small depositors' interest rates, we should still be aware that Medium and Small Banks are also facing the problems of stagnant industry growth and keen competition. They would as well have to compete intensely in order to survive. The problem is just how long would those medium and small banks sustain if they do not charge? Later they would find themselves faced with an influx of small account refugees and faced with their own increase in overheads. Promotion costs and other competition costs would also be driven up. Medium and Small Banks might finally impose charges to protect profit margins. It is in reality just a matter of time.

II.II. How Should Fees Be Charged?

As discussed, banks, no matter Big, Medium or Small, have to charge customers services fees. The only differences would be time to implement the services fees policies, either now or in soon future. That is, services fees would not be avoidable. Hence, what we have to consider is how banks should charge the customers. So far, the responses towards those announced services charges policies were critical and negative, some criticisms are mentioned as follows:

II.II.I. What are the Criticisms?

II.II.I.I. Social Responsibilities

It is generally recognized that banks have the responsibility to provide free banking services. This is because banks are not simply businesses; they are the trustees of customers' money, fulfilling an important social function by helping people save and prosper. The social responsibility of banks lies in the sense that they should accept accounts which need to be subsidized, but should not welcome rich people only. This is especially true for the 220,000 Comprehensive Social Security Assistance (CCSA) recipients and low-income families.

However, people on social welfare would not be able to gain any exemption in some banks' new fees policies. As requested by spokesmen of many different charitable organizations, banks should take on certain social responsibilities in helping vulnerable groups and not to make fees decisions based solely on a commercial reason.

Services charges also ruin banks' social responsibility on encouraging young people to save. The additional fees certainly bring a negative influence to the culture of saving. Many teenagers would have to close their accounts to avoid being penalized for their little money in their bank accounts and be forced to share the account with their parents.

II.II.I.II. Commodity

Banking services have become commodity already. It is considered as something that is necessary and has to be employed in daily life. It is already a part of people's normal life to open bank accounts for free and receive interest on their deposits. All of a sudden, depositors have to pay new and unexpected fees before they could deposit their money. Small depositors would feel that banks are bucko and discriminate against them. Moreover, it seems that banks are now trying intentionally or unintentionally to extort the weak social groups, including the elderly, disabled, low-income group and people on social welfare. On the other hand, banks are paying high interests to entice quality and high-value depositors. Many people believed that such new policy was discriminatory and was a form of prejudice against the poor and made the banks a safe haven for the rich only.

II.II.I.III. Self-Servicing Facilities is Not for Everyone

Many banks' new fees policies tried to push customers to use those self-servicing facilities. However, this is not yet for everyone. Many elderly and disabled people are unlikely to benefit from those free ATM, phone or Internet banking services. Over half of the surveyed elderly admitted that they had never used an ATM[14]. The complex nature of phone banking, personal computer or Internet access would make their use impossible for elderly and/or low-income customers who might do not even possess a computer.

II.II.I.IV. Specific Roles

Some banks hold unique roles in the society. For example, HSBC is the prescribed bank for school fees payment among many primary and secondary schools in Hong Kong, and many parents have only small balances in accounts used for such payment. After its fees announcement, parents requested schools to choose banks other than HSBC for school fees payments. However, other banks would follow HSBC and impose new charges soon in the future. Also, it is impractical for schools to collect school fees by cash or cheque due to additional administrative problems. For banks like HSBC holding an appointed role, banks should waive fees for students who have to pay school fees or employees who have to receive salaries since they have no choice but through their banking systems.

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[14] "Call Banks To Account"; Martin Zee; Hong Kong iMail; Editorial; 4 April 2001

II.II.I.V. Social Stratification

The new fees structures were also being criticized as one that would segregate people into different social classes according to their bank balances. People with a lower income level would be forced to leave big banks such as HSBC and Standard Chartered and open new accounts with Medium and Small Banks that do not charge. As a result, depositors who could afford to open an account in these Big Banks would possess a higher social status compared to those who could only open an account in smaller banks. Going into a Medium and Small Bank might be in one day suggesting a lower social status of a person.

II.II.II. Who Could Bear the Charges?

With lots of criticisms, it is quite obvious that banks' decision on planning their fees policies would be difficult and challenging. How could banks come out with a pricing strategy that could be fair enough? Before planning, banks should identify the target group that is to be charged.

Currently, it is the small depositor group being targeted since they mean a lower account balances, higher handling costs and thus lower profit margin. Big Banks are charging them services fees in an attempt to drive them away or to require them to pay for their costly services. However, it is usually this group of depositors who could not bear the additional costs burden. They might be the retired, the elderly, the disabled or the low-income group. In fact, it should be the big depositors who are able to pay. However, big depositors mean greater value to the banks and account for larger part of banks' revenues. Therefore, banks are not willing to charge them in order to retain these profitable customers.

In deciding the targeted customer group, banks should relate it to the types of services/products that should be charged. Fees could be charged to different services or products areas, like ATM services, branches services, and etc. However, each bank would have its own services/products that it would like to focus and expand. Now, Big Banks are pushing customers to use those more cost-effective means like ATM, phone and Internet banking services, from the more costly OTC transactions. This being the case, banks would charge customers on all OTC services in an attempt to drive them to use the free self-servicing facilities. This builds from a very logical ground that such move would allow the banks to better utilize and arrange their resources.

II.II.III. What are the Fees Strategies?

In terms of fees strategies, though there might be differences, banks typically based on three modes:

II.II.III.I. Raising Existing Fees

Some banks would raise the existing fees that are already charged on certain services or products as a means to increase fees income. For example, Standard Chartered has increased its monthly fees for account balance below certain levels from $25 in 1998 to $100 this year. Raising existing fees might due to the fact that the original fee did help the bank to achieve its initial aim or target, and now the bank would like to achieve a higher level of such aim or target. Such move would easily draw the public's attention to the bank's emphasized products or services.

II.II.III.II. Inventing New Fees

Apart from those existing fees, some banks would invent new fees to boost fees income sources. For instance, HSBC's OTC transactions fees are new to HSBC's customers. Banks that invent a particular fee usually did not have the need to charge such fee in the past, either due to the fact that such fee was not a concern or was subsidized by other revenues. However, due to external factors like deregulation and stagnant industry growth and internal factors like organizational restructuring, banks would start to be aware of the need to impose different services charges.

II.II.III.III. Making It More Difficult To Avoid Fees

Building a particular fee or a series of fees structure to an account would make consumers more difficult to avoid fees. All Big Banks are doing so by imposing charges for low account balance. By increasing the minimum account balance required for eliminating fees, customers who do not possess enough deposits would have to pay. Standard Chartered has increased its minimum account balance from $5,000 in 1998 to $10,000 this year. A larger portion of the depositors would thus not be able to avoid from those fees, unless leaving the bank.

Charging inactive low balance accounts was a further step. According to a survey carried out by Consumer Council in December 2000, 33 out of 38 banks charged depositors with accounts having been inactive for two years and balances lower than $1,000. Seventeen banks would even stop offering interests or lowering the interest rates offered to these inactive and low-balance depositors.[15]

When modifying or planning the services fees plan, banks would consider all these different strategies together rather than thinking them as mutually exclusive. This is especially true in the future when banks would constantly revise their own fees strategies in order to be competitive.

II.II.IV. What Should Be the Pricing Structures?

Banks not only employ different fees strategies, they also have different pricing structures. Facing with lots of criticism, banks have to employ a structure that is fair enough to a wide range of interested and concerned parties. Banks' position in the society is vital; therefore, their decisions must be thorough. Possible pricing structures include one-size-fits-all approach (fixed fees); pay-as-you-go approach (variable fees); and tiered interest scheme.

II.II.IV.I. One-Size-Fits-All Approach

One-size-fits-all approach means that a fixed fees structure is applied to all customers. For example, an annual fee of $50 is required for many banks' ATM cards. However, is this one-size-fits-all approach fair enough to the customers? It seems not. Take the annual fee of $50 for ATM card as an example. The sizes and

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[15] Consumers' Choices; Consumer Council; 12 April 2001

frequencies of the ATM transactions carried out by different cardholders would vary, it sounds more reasonable if customers with more transactions should pay a higher fee. Since customers might employ different bank services/products or carry out different amounts and frequencies of transactions even for the same kind of services, it seems unreasonable to charge all customers the same fixed fees.

II.II.IV.II. Pay-As-You-Go Approach

Pay-as-you-go approach is one which customers only have to pay for the services they use, rather than having one fee structure that subsidize everyone. This fees structure is then variable in the sense that fees are charged on the number of transactions and/or usage. Again, is such approach fair enough? Take a look at HSBC's $20 services fees for each OTC transaction. It sounds understandable that the more transactions you have at the branch, the more you should pay. At least, people who do not or seldom use branch services do not have to subsidize you. But look at the cost structure of a branch first. Nearly all of the operating costs of a branch are fixed: such as rental and salaries expenses. What would be the additional costs or marginal costs for handling one more OTC transaction? The office hour of the branch would still remain to be nine to five! It is in this way hard to understand how banks calculate such additional variable costs and the grounds behind such computation. It seems that pay-as-you-go approach is in fact unreasonable.

Also, if such fees were charged to some customers but not the others, just like the monthly fees imposed on low-balance accounts but not on large deposits, issues of discrimination would be raised. Fees based on transactions frequencies would also sound unfair to customers such as students who have to pay school fees, employees who have to receive salaries, and elderly or other needy people who have to receive social welfare at their bank accounts.

II.II.IV.III. Tiered Interest Rate Scheme

Apart from directly charging a fixed or variable fee on the services provided to the depositors, banks might charge depositors indirectly by reducing the interests paid to them. Currently, lower interest rates are paid to customers of lower account balances. For example, DBS Kwong On Bank would reduce the interest rate offered to depositors with account balance lower than $3,000 by three percent. Further, Dao Heng Bank would pay no interest to accounts with balance lower than $1,000.

This is not something new. Since 1999, HSBC and Hang Seng have already started to charge accounts with balance less than $3,000 one percent interests. Before that, it was common that banks would offer depositors with higher account balances a higher interest rate. Banks always claimed that a large depositor would mean a more valuable customer to them, however, they are actually lending all the deposits at the same rate to the borrowers. There are no big differences in the "money" that is deposited into the banks by different depositors. In the past, when smaller depositors were offered the "normal" interest rate and bigger depositors were offered a higher interest rate, the smaller depositors were in some sense subsidizing the bigger depositors by sacrificing part of the interests that they should receive. A gap between bigger depositors and smaller depositors already existed before the announcement of any new fees policies.

Now, the banks seem to try to widen this gap. They no longer just offer higher interest rate to bigger depositors, they even offer lower interest rate or no interest to smaller depositors. The further development of such trend leads to the build-up of tiered-interest rate scheme first announced by HSBC. A tiered-interest rate scheme is one which depositors would be classified to different tiers based on their account balance, and different interest rates would be assigned to each tier. Benefit of such tier structure to the bank is that funding costs of a bank could be reduced. Since similar costs are required to maintain a particular saving account, notwithstanding the size of the deposits, increasing the interest rates for bigger depositors would encourage the transfer of certain fixed-period savings to current saving accounts.

We should note that the norm for such a discriminating scheme is that the higher you are in the tier-structure, the higher the interest rates you would be offered. Such a raw deal is in reality not something fresh. Unfairness is indeed familiar in the banking industry. Like credit cards, banks always provide cash rebates or attractive gifts to new customers who apply the services during a particular promotion period, but such promotion campaigns have never been the case for the current or existing credit cardholders.

Even for the long-existence of these types of unfairness, there is up to now no regulating bodies intended to regulate them. First, Consumer Council simply keeps on doing research on the banks' different attitudes towards different customers but in no attempt to control, all it is doing is try to ensure that fair and open competition exists in the industry. Its emphasis is on adequate disclosures and it believes that HSBC's transparency in fees announcements would build a good example for the other banks to follow.

Second, Equal Opportunities Commission might be in a position to involve. It is a government organization aimed to create an environment where there is no barrier to equal opportunities and no discrimination. Up to now, it has never voiced any opinion towards such unfairness and there is no indication that actions would be carried out in the future.

Third, Hong Kong Monetary Authority (HKMA) should be mostly empowered to regulate the banking sector. While the public generally believed that HKMA should protect the consumer interests of bank customers, there is currently no rules or regulations that empower HKMA to do so. According to the Code of Banking Practice, banks only have to give customers 30 days' notice before any variation of terms and conditions which affects fees and charges; and where the variation involves substantial changes to existing terms and conditions or the charges are very complicated, banks should provide a written summary of the key features of the revised terms and conditions. When there are any services fees arguments between banks and customers, HKMA, however, could not become involved to solve the conflict. HKMA is simply interested in ensuring that the pricing structure of banks is transparent and that customers are given sufficient notice of any fee adjustments.

In view of the aforesaid situation, it seems that inequality in banking industry would hardly be eliminated, notwithstanding strong criticisms from the general public. In practice, the mentioned pricing structures are not mutually exclusive but should be incorporated to each bank's own planning. Different types of fees may require different way of pricing.

In order to base their pricing on a more reasonable ground, banks should be able to truly understand their underlying costs structures of the services. To do so, banks could employ different techniques: product attribute rankings and customer value analysis to identify the values of the services; elasticity analysis to reveal evidence of pricing mistakes and opportunities alike; fee waiver and exemption analysis to find whether employee practices are comply with official policy; and risk and runoff analysis to assess the likely competitive and customer reaction to any change.[16] In addition, banks must be able to identify the effects of their fee increases in different divisions in order to ensure that there would be a net gain for the whole organization. This could also help to measure the costs and benefits arose from fees increases.

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[16] "Going After Fee Income Takes Sophisticated Strategy"; Jacqueline Corbelli and Steinar Ryen; American Banker; New York; 5 January 2001; Special Volume/Issue 166; Issue 4; Page 13

II.III. Future Development of Banking Industry

All new fees policies imply that the banking world is changing. International and local banks are becoming more shareholder-focused and less customer-focused, and are more interested in high-net-worth customers, to the detriment of the average consumer. Banks are obviously changing from responsible community institutions to aggressive market-oriented companies. Whether customers like such changes or not, banks fees are ready to emerge and stay. In the following discussion, we would identify several major directions or trends of the banking industry due to the emergence of services charges.

II.III.I. Markets Segmentations

The services fees policies would drive the banks to segment the markets faster. These would be the Big Banks, Medium Banks and Small Banks based on the target groups of depositors the banks are focusing on.

For Big Banks, their target group would probably be depositors with account balances above $10,000. Say, the minimum balance requirements for Citibank is $30,000, for Standard Chartered is $10,000 and for HSBC is $5,000. One might wonder why HSBC set a low minimum balance requirement, but when we look at its tier interest rate structure, deposits lower than $10,000 would receive an interest rate one percent less than the standard Hong Kong dollar savings interest rate set by the Hong Kong Association of Banks prior to the planned deregulation. Such tier effectively put depositors with less than $10,000 savings in a less favorable position.

For the Medium and Small Banks, it would target at depositors that are driven away from the Big Banks' services fees policies. For sure, Medium Banks own branch networks that are more extensive than Small Banks. They would certainly in some sense have a competitive advantage over the Small Banks.

Services fees would also help banks to build its market position in a clearer manner. For instance, Standard Chartered Bank does not target the mass market. Instead, it classified its customers into three segments: Easy Banking product, which is aimed at customers with deposits of $10,000 and above; Excel Clients, who have deposits of $150,000 and above; and Priority Banking customers, who have accounts of $800,000 and above. They believed that anything below $10,000 would stuck them into the mass market and thus wanted to use services fees to make their position clear.[17]

Competitions in the industry would hence no longer be an industry-wide scale; instead, competition would be among each market segments. For instance, Big Banks would compete with Big Banks only. In each segment, banks would compete with each other for the limited number of "high-quality" and "high-value" customers. Target banking would be the focus of the banks in each segment. They would place a first priority on those high quality customers in their own segment. Since the number of "high-quality" and "high-value" customers is very limited, the competition would

[17] "Bank Orders Big Fee Rises"; Louis Beckerling and Enoch Yiu; South China Morning Post; 11 January 2001

become so keen that some of the banks might not be able to survive, leading to a wave of merger and acquisition.

II.III.II. Merger and Acquisition

Because of keen competition, costs of competition would be driven up. If the increased costs could not be compensated from the revenues, banks would not be able to survive. In order to increase competitiveness, Medium and Small Banks might merge with or acquire other banks to increase their customer base. As mentioned before, a large customer base is beneficial to them because they have the capacity to do personal or direct cross-selling.

Besides, banks have to compete in terms of the product choices rather than purely on services fees in the future. But the development of such new and different products and services would require additional costs incurred to the banks, Big Banks would certainly have a competitive advantage over the Medium and Small Banks in this area. Therefore, Medium and Small Banks have to co-operate in order to solve the related problems.

According to analysts, Hong Kong's domestic market has become too saturated. In early April 2001, DBS Kwong On Bank planned for a merger with Dao Heng Bank, creating the fourth largest bank in Hong Kong in terms of assets if the merger succeeds. The merged bank would intensify competition within the whole industry and would position itself aggressively with an aim to grow both its loans booked and fees incomes. Dao Heng is strong in retail, whereas DBS is good at product innovation like most Singaporean banks. So DBS can take advantage of the good customer relationships of Dao Heng to increase income from selling financial products.

How far would this trend of merger and acquisition go? That depends on the number of banks that the Hong Kong market could support. But the norm is, weaker banks would be edged out and only the powerful one could remain. Banking industry in Hong Kong should be ready for a shakeout, placing more pressure on banks here to consolidate in order to compete.

II.III.III. Fees-Oriented Market

In the past, banks focus on attracting more deposits and lending the savings to borrowers as loans and earning the spread in between. However, the deregulation of interest rates and recent stagnant industry growth reduces that profit margin. As a result, banks would switch their focus towards non-interest income, particular services fees that still have room to grow.

In 1999, non-interest income accounted for around 27 percent of banks' average revenues. By 2000, the percentage increased to around 29 percent. The growth rate of banks' non-interest incomes reached 13 percent compared to only five percent increase for interest incomes. In particular, Dao Heng Bank's strategic focus on non-interest revenues had raised the contribution of non-interest income to 25.5 percent of operating income in 2000, from 23.7 percent previously.[18]

Such trend is expected to increase in line with the trend in the world. Many people now still believe that the loans interests contribute to the foundation of bank income; however, the truth is that non-interest income accounts for many of the banks' revenues.[19] Non-interest income represented 43 percent of revenue for U.S. commercial banks by 1999, 40 percent in Australia, and 33 percent in northern Europe.[20] There is even an increase in trend. According to a study released by R.K. Hammer Investment Bankers of Thousand Oaks, California, fees accounted for 49 percent of total income at banks in US in 2000.[21] It was found that average bank fees charged by banks for many of the services increased significantly higher than the rate of inflation.[22]

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[18] "Fee-Based Income Lifts Dao Heng"; Louis Beckerling; South China Morning Post; Business-Hong Kong; 31 March 2001

[19] "Ratcheting Up The Fee Ratio"; James R. Peterson; ABA Banking Journal; Fee Income Strategies; August 2000; Page 29

[20] "Going After Fee Income Takes Sophisticated Strategy"; Jacqueline Corbelli and Steinar Ryen; American Banker; New York; 5 January 2001; Special Volume 166; Issue 4; Page 13

[21] "Penalty Fees Seen As Issuer Problem"; David Breitkopf; American Banker; New York; 12 January 2001; Special Volume/Issue 166; Issue 9; Page 9

[22] "Fed Report On Bank Fees Reveals Significant Increases"; Anonymous; Tax Management Financial Planning Journal; Washington; 15 August 2000; Volume 16; Issue 8; Page 208-209

Similar trend is also shown in Asian countries. In Seoul, the Korea Exchange Bank bills customers $0.40 each time they use an ATM. In Japan, ATM services are billed during weekends; Bank of Tokyo-Mitsubishi charges nearly $1 for every ATM transaction done from Saturday evening to Sunday.[23] This is especially true after the Asia Financial Crisis since the asset qualities are deteriorating and loan growth is declining.

II.III.IV. Customer-Value Focus

In the past, banks focused on the profitability of each of their individual product or service. When banks had to promote one new service or product, they concerned about the profit margin that they could earn from selling one more such product or service. Now, banks are moving towards a focus on the profitability of a customer rather than the products or services. Profitability of a customer means the profits or values that a customer could bring to the bank, that is, the total assets of the customers.

Banks are aware that not just one product could be sold to the customers; instead, they could cross-sell different services or products to the customers, deriving as much value from the customers as possible. All those new fees policies would facilitate the cross-selling function since small depositors would be encouraged to consolidate their accounts and place their investments at single bank rather than

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[23] "Soaring Fees"; Maria Cheng; Your Money; Banking; 23 February 2001; Page 56

holding many accounts in different banks. Such cross-selling would require a change in the traditional function of branches.

II.III.V. Branches Reform

Branches would gradually reduce the OTC transactions due to increased services fees and the migration towards self-serving facilities. The role of branches would fundamentally change to Sales and Services Center in an attempt to provide personal financial advisory to individual costumers so as to create as much value as possible to the banks from each customer. Also, these centers would be used more effectively and efficiently to create more cross-selling opportunities for these high net-worth customers. The branches network could still contribute to bottom line profits. Such cross-selling products would typically fall in five categories - credit cards, mortgages, unit trusts, travel and home insurance, and maybe a car loan.

For instance, HSBC would like to take those mature customers and raise its cross-sell ratio from 2.48 products in 2001 to closer to five in three or four years' time. The number of its "Privilege Banking Center" has increased from 15 in 1997 to 26 by April 2001, and that of the "24-hour Banking Center" also increased from 11 to 36, indicating the bank's emphasis on selling of banking products. Around 200 "Privilege Banking" counters have been set up in the bank's branches also.

Sales and Services Center could also help banks to compete in the retail securities trading market and to battle directly against brokerages firms. For example, Hang Seng Bank allowed all its branches, including those in MTR stations, for investors to trade stocks since November 2000. The minimum balance of the securities trading account was cut to $5,000 from $10,000 to boost its retail trading. Among 150 Hang Seng branches, 26 of them are instituted with Banking Center and 11 of them are established with Commercial Banking Center in order to attract more small and medium enterprises customers.

Even smaller banks like ICBC (ASIA) also assertively developed securities trading services in its branches to increase non-interest income sources. It now cooperates with Celestial Asia Securities Holdings Limited (CASH) to provide securities services and opened up its first Sales and Services Center in March 2001.

II.III.VI. Self-Servicing Facilities

Banks have been focusing on developing self-servicing facilities, notwithstanding their sizes, in order to reduce the pressure on their branches where would be reformed to act as Sales and Services Centers to strength the banks' abilities in selling more services and products. The big players HSBC and Hang Seng now run more than 800 ATM terminals for its ATM networks.

For instance, Wing Lung Bank has invested around one billion dollars to develop an integrated banking services solution to syncretize different operating channels, expecting one to two percent decrease in operating costs for its 35 branches. Currently, the bank possesses around 0.1 million online banking customers and online transactions accounts for about ten percent of the bank's total number of transactions.

Bank of America (Asia) also invested over two million dollars to offer smart-card terminals for provision of "Easy Trade" services to strength the bank's stock trading services. Investors could trade stocks at the terminals in the branches on their own, and commission at a rate of 0.25 percent would be paid to the bank.

II.III.VII. Posts Offices

Banking service is a necessity rather than a luxury; however, this does not mean that there would be commercial banks willing to help in providing such services free. Therefore, Government should take the role to help those affected social group. Post Office is believed to be the most appropriate media since the postal system is well developed in Hong Kong and manpower and resources of the Post Offices could be reallocated easily.

In many European and Asian countries including Japan and Taiwan, Post Offices there have already offered banking service tailored for small depositors. The Government might consider having Post Offices to provide citizens with deposit and remittance services so that Comprehensive Social Security Assistance (CSSA) recipients could receive CSSA payments and small depositors could pay and deposit small sums of money without having to pay high fees. According to David Carse, deputy chief executive of the HKMA, Post Office could provide some financial products should banks fail to deliver basic services to its customers cheaply. This would be the case when a large number of depositors was denied from cheap and fundamental banking services, the government would have a role to play.

CHAPTER III

SUMMARY AND CONCLUSION

The survey conducted by the Consumer Council in January 2001 showed that a number of new fees for a wide range of services had been implemented in 19 banks in Hong Kong in last year. Since then, major players like HSBC, Standard Chartered and Hang Seng have announced their new services charges policies that targeted small depositors. On the other hand, medium and small banks such as Dah Sing, Citi Ka Wah and Liu Chong Hing declared that they had no plan to charge or reduce interest rates on low balance accounts.

The reasons behind different approaches adopted by these two types of banks are obvious. For big banks, they typically have larger regulated deposit base which would be more seriously affected by interest rate deregulation. With the addition of deposit insurance scheme, the costs of deposits funding would be driven up and profit margins would be further lowered. The stagnant growth in banks' traditional core businesses like loans, credit cards and securities trading implied that banks have to find other new sources of income to maintain a positive profit growth. To combat with the increasing costs of competition and pressures on branches, big banks are pushing customers to employ those more cost-effective self-servicing facilities like phone and Internet banking and ATMs.

Medium and Small Banks, conversely, see the current situation as an opportunity for them to expand their customer bases. They could utilize their excess branch capacity to handle new customers that are driven away from the big banks and do cross-selling to mature customers. However, they would soon face similar problems that big banks are dealing with at the moment and find their needs to impose services fees to cover additional costs and reduced margins. Services charges are in effect a matter of time for medium and small banks.

In order to be competitive, banks have to plan for comprehensive services charges policies. With lots of criticisms voiced from concerned parties, the fees must be imposed on a fair ground. Currently, banks usually employ fees strategies of raising existing fees, inventing new fees and/or making it more difficult for customers to avoid fees. Along with different pricing structures: one-size-fits-all approach (fixed fees); pay-as-you-go approach (variable fees) and tiered interest scheme, banks have to truly understand their underlying costs structure in order to price fairly. In practice, banks could choose any combinations of the mentioned fees strategies and pricing structures according to their own missions, strategies and business structures.

The endless announcements of new fees policies mean that "free lunch" could no longer be found in banking services. What happens now in the market is that banks are becoming more shareholder-focused and less customer-focused, and more high-net-worth-customers-focused at the expense of other less valuable customers. The fees policies would also shape the future of the banking industry as a whole.

Banking market would be segmented into big banks, medium banks and small banks, with each segment targeting different groups of depositors and competing among its own segment. Competition would intensify and the related costs would be driven up. In order to increase competitiveness, banks would undergo a wave of merger and acquisition to consolidate. Services fees and charges would also be the focus of the banks for compensating the decreasing traditional profit margins.

Aware that values to banks come from each individual customer rather than each individual product or service, banks are keen on improving their cross-selling abilities by transforming their branches to Sales and Services Centers. With an aim to reduce pressure on traditional OTC services, banks would invest more in self-serving facilities so as to push customers towards those cost-effective means. However, the negative effects on the social groups due to those services fees would mean a problem to the society and the Government. Therefore, governmental organizations should be involved in providing banking services tailored for those affected small depositors; Post Offices are one of the possible media.

APPENDIX 1

HSBC'S NEW SERVICES AND CHARGES POLICY[24]

Fees Structures (effective July 2001)

The following fees will apply to Hong Kong Dollar Passbook Savings Account, University Student and Cash Card accounts.

Account Balance a (HK$)	Monthly Fee (HK$)
5,000 and above	No monthly fee
Below 5,000	40

[a] Rolling average of previous three months

Many customers, however, will not to be required to maintain a minimum balance of HK$5,000 in order to be exempt from the monthly fee:

1. Senior Citizens (age 65 and above) and recipients of government disability allowances will not be subject to the above mentioned minimum balance requirement.

2. Customers who hold the following products/serviced with HSBC will not be subject to the above mentioned minimum balance requirement:

[24] "HSBC Service Choices"; Your Guide To Banking and Saving With HSBC Leaflets; HSBC

- HSBC Premier	- Super Ease
- PowerVantage	- Time deposits
- Loans	- Unit trusts
- Overdrafts	- Mortgages
- Life insurance policies	- Monthly Investment Plan

Interest Rates on Hong Kong Dollar Savings Accounts

The following rates will apply to Hong Kong Dollar Passbook / Statement Savings†, University Student†, Cash Card†, Easy Savings†, HSBC Premier and PowerVantage accounts.

Tiered Interest Rate Structure

From 1 May 2001 to the accounts marked†	
Account Balance (HK$)	Interest Rate
10,000 and above	SAV
5,000 – 9,999	SAV – 1%
1,000 – 4,999	SAV – 2.5%, or 1%, whichever is lower
Below 1,000	0%

From July 2001 to all the accounts listed above	
Account Balance (HK$)	Interest Rate
150,000 and above	SAV + 0.25%
10,000 – 149,999	SAV
5,000 – 9,999	SAV – 1%
1,000 – 4,999	SAV – 2.5%, or 1%, whichever is lower
Below 1,000	0%

SAV refers to the standard Hong Kong dollar savings interest rate set by the Hong Kong Association of Banks prior to the planned deregulation. From July 2001, for accounts held with HSBC, it will be replaced by the new HSBC Savings Rate.

Bonus Interest – Reward for 'Total Relationship'

From July 2001, on top of the interest rate described above, customers can earn bonus interest on their Hong Kong dollar savings accounts when their Total Relationship Balance reaches HK$150,000.

Customers' Total Relationship Balance is not based on the balance in any single account, but also includes other business they have with HSBC.

The chart below summarizes the services that are included:

Total Relationship Balance [b]

Deposits - Hong Kong dollar - Foreign currencies	+	**Utilized lending facilities** (excluding mortgages and amounts outstanding on credit cards)	+	**Savings component on life insurance**	+	**Investments** - Securities - Unit trusts - Bonds - Monthly Investment Plan

[b] Includes:

The balances of customer's personal accounts held in the same name and with the same identity number.

The balances of customer's personal accounts that are jointly held, providing he/she also has an individually held personal account.

'Easy Savings' Service

Key Benefits:

- By choosing the 'Easy Savings' service, customers' existing Hong Kong dollar savings account** will not be subject to the minimum balance requirement and there is no account service fee
- Customers do no even need to change their existing account number**
- Enjoy the freedom to bank when customers want to, through HSBC's extensive network of ATMs, it's fee phone banking service, or online@hsbc
- Customers can update their passbook at HSBC's self-service machines, and make deposits at branches free-of-charge

**Applicable to Hong Kong Dollar Passbook Savings, University Student and Cash Card accounts.

Fee Structure:

- No account service fee
- No minimum balance requirement
- HK$20 per transaction for teller-assisted cash withdrawals and transfers with effect from July 2001

Super Ease

Key Benefits:

- Simple and convenient for customers' everyday money management
- Hong Kong dollar savings account with daily compound interest
- Standby credit up to HK$50,000 for auto payroll customers
- Monthly statement detailing all customer's transactions
- Convenient 24-hour automated phone banking
- Global cash access via ATMs

Exclusive Interest Rate Structure:

Account Balance (HK$)	Interest Rate
3,000 and above	SAV
Below 3,000	1%

Fee Structure (effective 1 July 2001)

Total Relationship Balance (HK$)	Monthly Fee (HK$)
3,000 and above	15
Below 3,000	35

PowerVantage

Key Benefits:

- A one-stop financial package that gives customers total control
- One integrated package offering Hong Kong dollar and foreign currency savings accounts, time deposits, investment services, current account and credit facilities
- Consolidated statement gives customers a comprehensive overview of their financial situation
- Convenient 24-hour automated phone banking and investment phone banking services

Fee Structure (effective 1 May 2001):

Total Relationship Balance (HK$)	Monthly Fee (HK$)
100,000 and above	No monthly fee
10,000 – 99,999	20
Below 10,000	60

HSBC Premier

Key Benefits:

- A one-stop Personal Bankers to help customers manage their wealth and their total financial needs
- A manned phone banking service available 24 hours a day, accessible from anywhere in the world
- Free HSBC Premier credit card
- Privileged terms on deposit, lending interest, exchange rates nad charges
- Privileged access to all HSBC Premier Centres, in Hong Kong and around the world
- An all-in-one insurance package that covers all customer's insurance needs in one policy

Fee Structure (no change):

Total Relationship Balance (HK$)	Monthly Fee (HK$)
One million and above	No monthly fee
500,000 – 999,999	40
Below 500,000	300

APPENDIX 2

A COMPARISION OF BANKING SERVICE FEES OF BIG BANKS

		HSBC	Hang Seng Bank	Standard Chartered	Citibank
A. Deposit Services					
Current Accounts:					
Monthly Service Charges for		$40	$20	$100	——
Account Below Minimum Amount		[$5,000]	[$5,000]	[$10,000]	——
Cheque Returned					
Due to	Insufficient Fund	$100	$100	$100	$80
	Other Reasons	$30	——	$100	——
Cheque Mark					
Good Sent by	Bank	$200 <1>	$200	$200	$50
	Customer	$60 <1>	$60	$200	$50
Others:					
Gift Cheque	Account Holder	$10	$10	$10	$10
	Non-Account Holder	$10	$10	$20	$10
	Elderly Privilege (Elderly Card Holder)	——	——	——	——

		HSBC	Hang Seng Bank	Standard Chartered	Citibank
Cashier's Order					
- Issuance	Account Holder	$35	$30	$40	$30
	Non-Account Holder	$35	$50	$60	——
	Elderly Privilege (Elderly Card Holder)	——	——	——	——
Coin Changing Charges (1 sachet of $1)		$1	$1	$2	——
Request for Personal Information		$200	$200	$200	$200
ATM Card	Annual Fee	$50	$50	$50	——
	Replacement of Lost	$30	$50	$50	——
Account History Record of Savings or Time Deposits Accounts (for 1 yr)	Per Copy	$250	$250	$250	$50
	Per Page	——	——	——	$50
Photocopying of Documents	Per Copy	$50	$50	——	——
	Per Page	——	——	$30	——
Certificate of Account Balance		$70	$100	$150	$100

		HSBC	Hang Seng Bank	Standard Chartered	Citibank
Reference Letter		$200	$200	$200	$100
Termination of Account within 3 Months after Opening		$30	——	$100	——
Report Loss of Passbook/Chop		$30	$50	$50	——
Auto Pay Returned Due to Insufficient Fund		$100	$100	$100	$80
Coins Deposited in Larger Amount	Max Limit (in number)	Company Account: $1/packet	——	$1,000	——
	Excess Fee (in amount %)	Company Account: $2/packet	——	2%[$50]	——
Paper Notes Deposited in Large Amount	Max Limit	RCR	——	——	——
	Excess Fee	RCR	——	——	——
Draw Money from ATM	In Macau or Mainland China	$20(HSBC) $25(PLUS)	$20(HSBC) $30(PLUS)	$25	——
	Other Banks in HK (PLUS/CIRRUS)	$25	$30	$25	——
Chats Outward		$150(+50%)	$150 (+50%)	$100	$150

		HSBC	Hang Seng Bank	Standard Chartered	Citibank
B. Remittances and Foreign Exchange Services					
Outward Remittance:					
Demand Draft	Account Holder	$50	$60	$120	$50
	Non-Account Holder	——	——	——	——
Telegraphic Transfer (Domicile Currency)		$150-$200 (+14.3%)	$160	$160	$150
Inward Remittance:					
Credit to account		$50~	$50~	——	——
Foreign Currency Notes/Cheque Exchange:					
USD Cash Deposit into USD Account	Daily Max Limit (US$)	——	——	$2,500	$3,000
	Excess Limit (in amount %)	0.25% [US$5]	——	0.25%	0.25% [$50]
USD Cheques	Deposit into HKD Account	0.25-0.375% [$50]	$60	——	$50
	Deposit into USD Account (in amount %)	0.25-0.375% [$50]	USD $60, USD T/T $0.25%	0.25% [$50]	0.25% [$50]
USD Cheques Collection		$150	$200	$200	$200

		HSBC	Hang Seng Bank	Standard Chartered	Citibank
C. Loans Related Services					
Photocopying of Title Deeds	Per Copy	$200	$200	$200	$200
	Per Page	——	——	——	——
Photocopying of Repayment Schedule	Per Copy	$30	$50	$100	$50
Change of Loan Terms		$300	——	$400	$500~
Partial Repayment for the First Year		——	3% [$50,000]	$1000~	Depends
Total Loans	Non Repayment %	3%[$50,000]	3% [$50,000]	3% [$50,000]	Depends

Updated until 16/4/2001

* Within 1 yr:$250; 2yrs: $500;3yrs:$1000;$1000 addition each yr afterwards

~ New account

<1> Addition of other side /foreign bank fee

<2> Applicable for new clients from 15/4/2001, with exemption on elderly above 65, university students, children below 18 and disabled

[$] Minimum charge

RCR Retain charging right

APPENDIX 3

A COMPARISION OF BANKING SERVICE FEES OF

MEDIUM AND SMALL BANKS

		1. DBS Kwong On Bank	2. Dah Sing Bank	3. Bank of China (HK Branch)	4. Wing Hang Bank
A. Deposit Services					
Saving & Current Account:					
Low-Balance Inactive					
Saving Account	Inactive months	24	12	24	12
	Minimum Limit	$1,000	$1,000	$1,000	$1,000
	Charges/Half Year	$50	$50	$50	$50
Cheque Returned					
Due to	Insufficient Fund	$100	$100	$90	$100
	Other Reasons	$30	——	$20	$100
Cheque Mark					
Good Sent by	Bank	$200 <1>	$200	$200	$200
	Customer	$50	$50	$50	$50

		1. DBS Kwong On Bank	2. Dah Sing Bank	3. Bank of China (HK Branch)	4. Wing Hang Bank
Others:					
Gift Cheque	Account Holder	$10	$10	$10	$10
	Non-Account Holder	$10	$10	$10	$10
	Elderly Privilege (Elderly Card Holder)	$5	——	——	$5
Cashier's Order					
- Issuance	Account Holder	$35	$35	$35	$30
	Non-Account Holder	——	$60	——	——
	Elderly Privilege (Elderly Card Holder)	$17.5	——	——	$17.5
Coin Changing Charges (1 sachet of $1)		$1	——	$1	$1
Request for Personal Information		——	——	——	——
ATM Card	Annual Fee	$50	$50	$50	$50
	Replacement of Lost	$30	$30	$30	$30

		1. DBS Kwong On Bank	2. Dah Sing Bank	3. Bank of China (HK Branch)	4. Wing Hang Bank
Account History Record of Savings or Time Deposits Accounts (for 1 yr)	Per Copy	$200	——	$250	——
	Per Page	——	$50	——	$30
Photocopying of Documents	Per Copy	$30	——	——	——
	Per Page	——	$50	$2	$30
Certificate of Account Balance		$70	$100	$70	$100
Reference Letter		$150	$150	$150	$200
Termination of Account within 3 Months after Opening		$50	$100	$30	$30
Report Loss of Passbook/Chop		$30	$50	$30	$30
Auto Pay Returned Due to Insufficient Fund		$100	$100	$90	$100
Coins Deposited in Larger Amount	Max Limit (in number)	——	——	——	——
	Excess Fee (in amount %)	——	——	RCR	——

		1. DBS Kwong On Bank	2. Dah Sing Bank	3. Bank of China (HK Branch)	4. Wing Hang Bank
Paper Notes Deposited in Large Amount	Max Limit	——	——	RCR	——
	Excess Fee	——	——	——	——
Draw Money from ATM	In Macau or Mainland China	$10	$15	$10	$10
	Other banks in HK (PLUS/CIRRUS)	——	——	$25	$25~
Chats Outward		$80	$70	$100	$100
B. Remittances and Foreign Exchange Services					
Outward Remittance:					
Demand Draft	Account Holder	$50	$60	$50	$40
	Non-Account Holder	——	$120	$150	——
Telegraphic Transfer (Domicile Currency)		$180	$160	$150-$175	——
Inward Remittance:					
Credit to account		$20	——	$20~	$10-$30~

		1. DBS Kwong On Bank	2. Dah Sing Bank	3. Bank of China (HK Branch)	4. Wing Hang Bank
Foreign Currency Notes/Cheque Exchange:					
USD Cash Deposit into USD Account	Daily Max Limit (US$)	——	——	Large$1.5/ US$100 Small$2.5/ US$100	——
	Excess Limit (in amount %)	——	——	——	——
USD Cheques	Deposit into HKD Account	$20	——	——	——
	Deposit into USD Account (in amount %)	$1.5/US$100	——	——	——
USD Cheques Collection		$180 <1>	$150	$150	——
C. Loans Related Services					
Photocopying of Title Deeds	Per Copy	——	$200	$150	——
	Per Page	$4[$50]	——	——	5[$20]
Photocopying of Repayment Schedule	Per Copy	——	$100 (Max 1yr)	$20	$100

		1. DBS Kwong On Bank	2. Dah Sing Bank	3. Bank of China (HK Branch)	4. Wing Hang Bank
Change of Loan Terms		——	——	Depends	——
Partial Repayment for the First Year		——	——	Depends	——
Total Loans	Non Repayment %	——	——	Depends	3%

		5. Wing Lung Bank	6. Asia Commercial Bank	7. Bank of East Asia	8. Bank of America
A. Deposit Services					
Saving & Current Account:					
Low-Balance Inactive Saving Account	Inactive Months	24	18	——	——
	Minimum Limit	$100	$1,000	——	——
	Charges/Half yr	$25	$50	——	$12.5
Cheque Returned Due to	Insufficient Fund	$100	$100	$100	$100
	Other reasons	$30	——	$30	$100
Cheque Mark Good Sent by	Bank	$200	$200	$200	$200
	Customer	$50	$100 (+100%)	$100	$60
Others:					
Gift Cheque	Account Holder	$10	$10	$10	$10
	Non-Account Holder	$10	$10	$10	$10
	Elderly Privilege (Elderly Card Holder)	——	$5	——	——

		5. Wing Lung Bank	6. Asia Commercial Bank	7. Bank of East Asia	8. Bank of America
Cashier's Order					
-Issuance	Account Holder	$40	$35	$35	$40
	Non-Account Holder	——	$100	——	$60
	Elderly Privilege (Elderly Card Holder)	——	Half priced	——	——
Coin Changing Charges (1 sachet of $1)		$2	$2	$2	$1
Request for Personal Information		——	——	——	$200
ATM Card	Annual Fee	$50	——	$50	$50
	Replacement of Lost	$30	$50	——	$50
Account History Record of Savings or Time Deposits Accounts (for 1 yr)	Per Copy	——	*	$250	$250
	Per Page	$30	*	——	——
Photocopying of Documents	Per Copy	——	*	——	——
	Per Page	$30	*	$50	$30
Certificate of Account Balance		$70	$100	$100	$100

		5. Wing Lung Bank	6. Asia Commercial Bank	7. Bank of East Asia	8. Bank of America
Reference Letter		$150	$200	$150	$200
Termination of Account within 3 Months after Opening		$50	$150	$100	$150
Report Loss of Passbook/Chop		$30	$50	$50	$50
Auto Pay Returned Due to Insufficient Fund		$100	$100	$100	$100
Coins Deposited in Larger Amount	Max Limit (in number)	——	——	——	——
	Excess Fee (in amount %)	——	RCR	——	——
Paper Notes Deposited in Large Amount	Max Limit	500 pages	RCR	——	——
	Excess Fee	$0.25/page [$125]~	RCR	——	——
Draw Money from ATM	In Macau or Mainland China	$10	$10	$10	$25
	Other banks in HK (PLUS/CIRRUS)	$25	——	$25	$25
Chats Outward		$100	$100	$100	$100

		5. Wing Lung Bank	6. Asia Commercial Bank	7. Bank of East Asia	8. Bank of America
B. Remittances and Foreign Exchange Service					
Outward Remittance:					
Demand Draft	Account Holder	$40-$70	$60	$50	$60
	Non-Account Holder	$40-$70	$200	$150	$180 (+20%)
Telegraphic Transfer (Domicile Currency)		$150-$220	Common Acc. $200; Mainland $100-400	$180	$160
Inward Remittance:					
Credit to Account		$10-$30~	——	——	——
Foreign Currency Notes/Cheque Exchange:					
USD Cash Deposit into USD Account	Daily Max Limit (US$)	——	——	——	$25,000
	Excess Limit (in amount %)	——	0.25%[$50]	——	0.25%[$50]
USD Cheques	Deposit into HKD Account	$20	——	——	——
	Deposit into USD Account (in amount %)	$20	$100	——	0.25%[$50]

		5. Wing Lung Bank	6. Asia Commercial Bank	7. Bank of East Asia	8. Bank of America
USD Cheques Collection		$100	$240(+20%)	$100	$200
C. Loans Related Services					
Photocopying of					
Title Deeds	Per Copy	——	——	$200	——
	Per Page	$10	——	——	$50 (max$500)
Photocopying of					
Repayment Schedule	Per Copy	$10	$100	$200	$50
Change of Loan Terms		$500	$500	$1,000	——
Partial Repayment for the First Year		——	——	Depends	——
Total Loans	Non Repayment %	3% [$50,000]	——	Depends	0.6%

		9. American Express	10. First Pacific Bank Ltd	11. ABN-AMRO	12. International Bank of Asia
A. Deposit Services					
Saving & Current Account:					
Low-Balance Inactive Saving Account	Inactive Months	12	24	——	180 days
	Minimum Limit	$3,000	$1,000	$10,000	$1,000
	Charges/Half Year	$50	$25	——	$10
Cheque Returned Due to	Insufficient Fund	$100	$150	$80	$100
	Other Reasons	$50	$30	$50~	$20
Cheque Mark	Bank	——	$100	——	$100
Good Sent by					
	Customer	$60	——	$50	——
Others:					
Gift Cheque	Account Holder	——	$10	——	$10
	Non-Account Holder	——	$20	——	$10
	Elderly Privilege (Elderly Card Holder)	——	——	——	——

		9. American Express	10. First Pacific Bank Ltd	11. ABN-AMRO	12. International Bank of Asia
Cashier's Order	Account Holder	$50	$40	$30	$30
	Non-Account Holder	——	——	——	$60
	Elderly Privilege (Elderly Card Holder)	——	——	——	——
Coin Changing Charges (1 sachet of $1)		——	——	$1	$3
Request for Personal Information		$300	——	——	——
ATM Card	Annual Fee	——	——	——	$50
	Replacement of Lost	——	$50	——	$30
Account History Record of Savings or Time Deposits					
Accounts (for 1 yr)	Per Copy	$250	——	$30	$250
	Per Page	——	$30	——	$30
Photocopying of Documents	Per Copy	——	——	$30	——
	Per Page	$30	$30	——	$30
Certificate of Account Balance		$100	$150	——	$150
Reference Letter		$150	$150	$200	$150

		9. American Express	10. First Pacific Bank Ltd	11. ABN-AMRO	12. International Bank of Asia
Termination of Account within 3 Months after Opening		$50	$50	$100	$100
Report Loss of Passbook/Chop		——	$30	$30	$50
Auto Pay Returned Due to Insufficient Fund		$100	$150	$80	$100
Coins Deposited in Larger Amount	Max Limit (in number)	——	——	——	——
	Excess Fee (in amount %)	——	——	——	[$30]
Paper Notes Deposited in Large Amount	Max Limit	——	——	——	——
	Excess Fee	——	——	——	——
Draw Money from ATM	In Macau or Mainland China	——	——	$10~	——
	Other banks in HK (PLUS/CIRRUS)	——	——	$25~	$25
Chats Outward		$100	$100	$100 (+25%)	$100

		9. American Express	10. First Pacific Bank Ltd	11. ABN-AMRO	12. International Bank of Asia
B. Remittances and Foreign Exchange Service					
Outward Remittance:					
Demand Draft	Account Holder	$50	$50	$50 (+66.7%)	$50
	Non-Account Holder	——	——	——	$80
Telegraphic Transfer (Domicile Currency)		$150	$150	$150	$150
Inward Remittance:					
Credit to account		——	$50	——	$10-$50~
Foreign Currency Notes/Cheque Exchange:					
USD Cash Deposit into USD Account	Daily Max Limit (US$)	——	$2.5/US$100	US$2,500	——
	Excess Limit (in amount %)	0.5% [US$10]	$2.5/US$101	0.25% [$50]	——
USD Cheques	Deposit into HKD Account	——	——	0.25% [$50]	——
	Deposit into USD Account (In amount %)	0.25% [$100]	$50	——	——

		9. American Express	10. First Pacific Bank Ltd	11. ABN-AMRO	12. International Bank of Asia
USD Cheques Collection		0.25% [$100]	0.25% [$150]	$200 (+100%) <1>	$250
C. Loans Related Services					
Photocopying of Title Deeds	Per Copy	$500	——	$200	$200
	Per Page	——	$10[$150]	——	——
Photocopying of Repayment Schedule	Per Copy	$100	$30 (Above 1yr, $100/page)	——	$30
Change of Loan Terms		$500	$200	$300-$500	$500
Partial Repayment for the First Year		——	$500	Depends	——
Total Loans	Non Repayment %	1%[$1,000]	3%	Depends	Loan Amount 2%

		13. Dao Heng Bank	14. Liu Chong Hing Bank	15. Po Sang Bank Ltd
A. Deposit Services				
Saving & Current Account:				
Low-Balance Inactive		——		
Saving Account	Inactive Months		24	24
	Minimum Limit	$3,000	$1,000	$1,000
	Charges/Half Year	$15	$50	$50
Cheque Returned				
Due to	Insufficient Fund	$100	$100	$90
	Other Reasons	$30	$30	$20
Cheque Mark				
Good Sent by	Bank	——	$200	——
	Customer	——	$50	$50
Others:				
Gift Cheque	Account Holder	$10	$5	$10
	Non-Account Holder	——	$10	$10
	Elderly Privilege (Elderly Card Holder)	——	——	——

		13. Dao Heng Bank	14. Liu Chong Hing Bank	15. Po Sang Bank Ltd
Cashier's Order -Issuance	Account Holder	$35	$30	$35
	Non-Account Holder	——	$60	——
	Elderly Privilege (Elderly Card Holder)	——	——	——
Coin Changing Charges (1 sachet of $1)		$1	$1	$1
Request for Personal Information		$200	——	$100
ATM Card	Annual Fee	$50	——	$50
	Replacement of Lost	$30	$30	$30
Account History Record of Savings or Time Deposits Accounts (for 1 yr)	Per Copy	$250	——	$250
	Per Page	——	30(+50%)	——
Photocopying of Documents	Per Copy	——	——	——
	Per Page	$30	$30 (+50%)	——
Certificate of Account Balance		$100	$100	$70
Reference Letter		$200 (+33.3%)	$200	$150

		13. Dao Heng Bank	14. Liu Chong Hing Bank	15. Po Sang Bank Ltd
Termination of Account within 3 Months after Opening		$30	$30	$30
Report Loss of Passbook/Chop		$50	$30	$30
Auto Pay Returned Due to Insufficient Fund		$100	$100	$90
Coins Deposited in Larger Amount	Max Limit (in number)	$1,000	RCR	RCR
	Excess Fee (in amount %)	1%[$50]	RCR	RCR
Paper Notes Deposited in Large Amount	Max Limit	500 pages	RCR	RCR
	Excess Fee	$0.25/page [$125]	RCR	RCR for over $200,001
Draw Money from ATM	In Macau or Mainland China	$10	$10	$10
	Other banks in HK (PLUS/CIRRUS)	——	——	$25
Chats Outward		$100	$100 (+100%)	$100

		13. Dao Heng Bank	14. Liu Chong Hing Bank	15. Po Sang Bank Ltd
B. Remittances and Foreign Exchange Services				
Outward Remittance:				
Demand Draft	Account Holder	$60	$50	$50
	Non-Account Holder	$150(+25%)	$150	$150
Telegraphic Transfer (Domicile Currency)		$160	$150(+15.4%)	——
Inward Remittance:				
Credit to account		——	——	$20~
Foreign Currency Notes/Cheque Exchange:				
USD Cash Deposit into USD Account	Daily Max Limit (US$)	——	——	——
	Excess Limit (in amount %)	[$30]	——	——
USD Cheques	Deposit into HKD Account	——	$30 (< US$100)	——
	Deposit into USD Account (in amount %)	0.25% [$30]	$30 (< US$100)	——
USD Cheques Collection		$150 (+25%)	$120	——

		13. Dao Heng Bank	14. Liu Chong Hing Bank	15. Po Sang Bank Ltd
C. Loans Related Services				
Photocopying of Title Deeds	Per Copy	——	$100	$150
	Per Page	$10[$200]	——	——
Photocopying of Repayment Schedule	Per Copy	$50~	$50~	——
Change of Loan Terms		$500 (+66.7%)	——	——
Partial Repayment for the First Year		——	——	——
Total Loans	Non Repayment %	——	——	——

Updated until 16/4/2001

* Within 1 yr: $250; 2yrs: $500; 3yrs: $1000; $1000 addition each yr afterwards

~ New account

<1> Addition of other side /foreign bank fee

<2> Applicable for new clients from 15/4/2001, with exemption on elderly above 65, university students, children below 18 and disabled

[$] Minimum charge

RCR Retain charging right

APPENDIX 4

A COMPARISION OF SMALL DEPOSIT ACCOUNT

INTEREST RATES AND FEES

Banks	Min. Amount Limit (HK$/Mon)	Fees on Account Below Min. Limit (HK$/Month)	Small Deposit Interest Rate
HSBC	5,000	40	No interest rate for amount below $1,000
Hang Seng Bank	5,000	20	1% interest rate/saving account interest rate minus 2.5% for amount below $3,000
Standard Chartered Bank	10,000	100	No interest rate for amount below $3,000
Bank of America	5,000	25	No interest rate for amount below $1,000
Bank of China	1,000	50	1% interest rate for amount below $3,000

Banks	**Min. Amount Limit (HK$/Mon)**	**Fees on Account Below Min. Limit (HK$/Month)**	**Small Deposit Interest Rate**
Dao Heng Bank	3,000	15	No interest rate for amount below $5,00
DBS Kwong On Bank	1,000	50	Interest rate minus 3% for amount below $3,000
Bank of East Asia	—	—	Interest rate minus 2.25% for amount below $1,000

Updated until 16/4/2001

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